

CITY OF MILTON-FREEWATER, OREGON

Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2005

PREPARED BY:

**FINANCE DEPARTMENT
LUKE BILLINGS
ACCOUNTING SUPERVISOR
AND
DAVE RICHMOND
FINANCE DIRECTOR**

City of Milton-Freewater, Oregon

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Introductory Section



CITY OF
MILTON-FREEWATER
P.O. Box 6 • 722 S. Main • Milton-Freewater, OR 97862

November 23, 2005

Citizens of Milton-Freewater, Oregon
The Honorable Lewis Key, Mayor
Members of City Council
Delphine Palmer, City Manager

It is my pleasure to submit to you the Comprehensive Annual Financial Report of the City of Milton-Freewater, Oregon (the City) for the fiscal year ended June 30, 2005.

Management is responsible for the information contained within this report. We believe the data presented is accurate in all material respects, and presents all disclosures necessary for the reader to gain maximum understanding of the City's financial affairs.

This report was prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34. Reports include Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and the related Omnibus Statement No. 37. Implementation of these GASB statements dramatically changed how the City's financial information is reported. Major changes include the following:

A narrative introduction, overview, and analysis now accompanies the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A.

Government-wide financial statements are now included to reflect the City as a single unified entity. The government-wide statements report information in a manner similar to that of for-profit business entities and include all long-term assets and liabilities of the City.

Fund financial statements are now presented in detail for significant major funds and in total for nonmajor funds.

This report consists of three parts:

1. Introductory Section
2. Financial Section, including the financial statements and supplemental data of the government accompanied by our independent auditor's opinion.
3. Statistical Section, including a number of tables of un-audited data depicting the financial history of the government for the past ten years, information on overlapping governments, demographics and all other miscellaneous information.

GENERAL OVERVIEW

Historically, Milton-Freewater's economy has revolved around the area's agricultural activity. Orchards, irrigated row crops, and dry land fields provide raw materials for five major food processors. Grapes are becoming a major agricultural income for the valley. This area is producing wines that are being recognized world-wide. Employment in the agricultural sector has historically been very volatile with most employees laid-off for several months during the winter and early spring. This problem has eased considerably as various types of fruit have been introduced which expand the harvest season. Installation of new cold atmosphere storage facilities and new processing lines have also allowed local packers and processors to extend employment seasons up to nine or ten months. Sykes, a call center, has employment opportunities in the Milton-Freewater area with the possibility of approximately 400 jobs. It has helped the area be less dependant on agriculture as the main job base. Other major employers are the school district, The Orchards Rehabilitation, Assisted Living and Retirement Center, and the City.

ECONOMIC CONDITIONS AND OUTLOOK

The economy of the Walla Walla Valley is insulated from the national economy due to the stable influence of high levels of agricultural and governmental employment. This relative stability gives the appearance of being counter-cyclical in that the area lags during periods of rapid national growth, but is not as severely affected during recessions.

Agriculture – Local apple growers continue to replace apples with grapes.

The controlled atmosphere apple storage facilities that have been constructed have proven to be very successful in providing an extended period of time for the growers to market the product. There are plans for five new wineries to open in the Milton-Freewater city limits this year.

Industry – There are two industrial parks owned by the Port of Umatilla and one is being fully utilized. The industrial land available at one of the sites has not yet been developed, primarily due to the high cost of development.

Food processing and packing continues to be an important part of the local economy. The industry continues to adjust to changing markets going away from canned goods toward frozen and fresh products.

Overall, the Walla Walla Valley is well positioned for industrial growth outside the City limits, which is still close enough to benefit our community. With the addition of Sykes, Milton-Freewater has experienced a large increase in jobs that are year-around and have a starting pay greater than minimum wage.

Service and Retail – The City has experienced a significant change with a number of new retail businesses during the last year. Those businesses that serve special market niches, that offer superior service, and that market effectively, will do well. The retail economy in the valley, as a whole, is strengthening.

Housing – Housing starts were up this year.

Government Employment – This has historically been a stable to growing portion of the economy. However, the governmental trend towards staff reductions and less government has had an impact on this area of employment.

FINANCIAL OVERVIEW

What is the financial health of the City of Milton-Freewater? Daily we hear about the budget shortfalls of the State of Oregon, school districts, and local governments. Fortunately, the City is in stable financial shape due to the foresight of the City Council, the City Budget Committee, City management, and staff.

The City's 2005 budget was \$21,655,148 with \$4,458,730 in contingency and reserve funds. A contingency fund is used for unexpected emergencies and a reserve fund acts as a savings account for a specific project. The city continues to serve its customers with some of the lowest power rates in the Northwest. The reason the city can offer such low cost power is because of our long-term power contracts. Recently, contracts with the Grant County PUD were reinitiated and extended for an additional 30 years.

This fiscal year the City's staff wrote grants and the City was awarded \$12,088 in grant money for use on ancillary projects to benefit our citizens. It is important to note the grants must be used for very specific projects or purposes.

The City staff will continue to apply for grants to finance special projects in our City. Unfortunately, grant funding will not pay for day-to-day operations, but they will allow the City to develop new projects or upgrade existing infrastructure that the City could not afford with its limited annual budget.

As previously stated the City is in stable financial condition. Our challenge is to keep or improve on this. How do we accomplish this with unfunded mandates, tax and assessment caps from measures and increased costs? We are currently evaluating every process and expenditure to determine whether or not they are the most financially sound way to do business. We refinanced the 1993 sewer, water, and Joe Humbert aquatic center bonds, saving the city \$183,000. We are exploring alternate revenue sources. Our staff is dedicated to keeping utility rates low and service high.

MAJOR INITIATIVES

The City has completed the process of updating its Milton substation, replacing outdated equipment that was over 40 years old.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (A) the cost of a control should not exceed the benefits likely to be derived; and (B) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluation occurs within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City of Milton-Freewater prepares and adopts an annual budget in accordance with the provision of the Oregon Revised Statutes (Local Budget Law, Chapter 294.305 through 294.565). The Local Budget Law provides legal standards for preparing, presenting, adopting, and administering the City's annual budget. The City's Budget Committee is made up of the Council members and six citizens appointed by Council. Public notices of Budget Committee meetings and the proposed budget are required by state statutes. This gives the public an opportunity to be heard. After revising the budget and hearing any citizen's comments, the Budget Committee sends the proposed budget and its recommendations to the Council. If the Council deems it necessary, the proposed budget may be revised by the City Council before adoption.

The Oregon Local Budget Law states that annual budgets may be presented by funds and program categories, and prohibits over expenditure in any category. The City Manager is responsible for the preparation of the annual budget, and the Finance Director is responsible for monitoring the budget for legal compliance. All appropriations are for the current fiscal year. Any unexpended appropriations lapse at the end of the fiscal year.

The following basis of accounting are followed for the respective funds:

ACCOUNTING BASIS

Modified Accrual Basis

Accrual Basis

APPLIED FUNDS

Governmental Fund Types
General Fund
Special Revenue Funds
Debt Service Funds
Capital Project Funds

Proprietary Fund Types
Enterprise Funds
Internal Service Funds

Proprietary funds are accounted for in a manner similar to accounting for a private enterprise. Therefore, the method of accounting used in these funds is the Accrual Basis since that is the method private enterprise uses. The Accrual Basis of accounting recognizes all expenses when incurred, revenues when they are earned rather than when they are received, and depreciates all capital assets. Governmental and Fiduciary funds are handled differently so the Modified Accrual Basis is used. Revenues are recognized when they become available and measurable, and expenditures are recognized when the fund liability is incurred, if measurable. (Exceptions include principal and interest on long-term notes where only the current portion is recognized.)

THE REPORTING ENTITY AND SERVICES

The citizens of the cities of Milton and Freewater voted to become a single entity in January of 1951. Since that time, the City of Milton-Freewater has been operated on the council-manager plan. The City Council consists of a Mayor and six Councilors which took effect on January 1, 1995. Before that time the number of Councilors was five. All powers of the City rest with the Council which may legislate matters of local concern. However, Council decisions are subject to Oregon State law and the State Constitution on state-wide matters. The Council is presided over by the Mayor, who is also an elected official, but has no vote in the council meeting except in cases of a tie.

The Council appoints the Budget Committee, the Planning Commission, the Recreation Committee, and the Library Board. These committees serve in an advisory capacity, and make all recommendations to the Council for further action, with the exception of the Planning Commission. This Commission administers the provisions in the zoning and land development codes. However, all decisions made by the Planning Commission may be appealed to the City Council.

The Council also appoints the Municipal Court Judge, the City Attorney, and the City Manager. These officers answer directly to the Council.

The City Manager is responsible for management of the City's programs and implements the Council's goals. It is the City Manager's responsibility to see that all ordinances and provisions of all franchises, leases, contracts, permits, and privileges granted by the City are observed. With the exception of the City Attorney and the Municipal Judge, the City Manager appoints all appointive city officers and employees, and has general supervision and control over them to the end of obtaining the utmost efficiency from each of them.

This report includes all of the funds and account groups of the City. The Urban Renewal Agency (URA) is included as a blended component unit of the City's comprehensive annual financial report because the City Council and the URA's Board of Director's are one in the same. Therefore, the City Council has the ability to significantly impose its will over the URA. The City provides the electric, water, sewer, and garbage services in addition to the usual municipal services. These include police and fire protection, street construction and maintenance, recreation programs and facilities, city parks and municipal golf course, municipal library, planning and zoning, and general administrative services.

Cash Management

The City of Milton-Freewater pools the cash of all funds and invests the surplus cash in certificates of deposit, savings accounts, and U.S. Treasury bills. Cash is also deposited in the Oregon State Investment Pool. Interest is disbursed to all funds based on each fund's cash contribution. For fiscal year June 30, 2005, the majority of surplus cash was deposited in the Oregon State Investment Pool and local Milton-Freewater banks.

Risk Management

The City participates in a trust established in 1981, by the League of Oregon Cities and the Association of Oregon Counties to provide risk management services including insurance and loss control. This trust provides self-insurance pooling for general liability, auto liability, auto physical damage, property damage, and earthquake damage. Worker's compensation is covered by State Accident Insurance Fund (SAIF). The City's deductibles on all policies are limited to only small amounts.

Other Information

Independent Audit – The State of Oregon requires an annual audit of the books of account, financial records and transactions of all administrative departments of the City by independent certified public accountants selected by the City Council. The firm, LeMasters & Daniels PLLC was selected. This requirement has been complied with and the auditor's opinion has been included in this report.

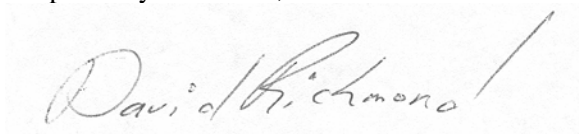
Conclusion

The City of Milton-Freewater is always looking for ways to improve the efficiency of its work force, and the quality of service to its citizens. Cost saving measures are implemented whenever possible to avoid a reduction of service to our citizens. An example is the refunding of the 1993 Aquatic Center, Sewer and Water bonds saving the city \$183,000. The city implemented taking payments over the internet and accepting credit/debit cards. Many customers are using this service.

Acknowledgments

A big thank you to the finance team and all members of the departments who assisted and contributed to its preparation of this years' CAFR. I would also like to thank the Mayor, City Council, Budget Committee and the City Manager for their interest and support in planning and conducting the financial operation of the City.

Respectfully submitted,

A handwritten signature in cursive script that reads "David Richmond". The signature is written in dark ink on a light-colored background.

David Richmond
Finance Director

City of Milton-Freewater

City Council and Appointed Officials

Term Expires December 31,

Council Members: (Elected to 4 year terms)

Lewis Key	Mayor		2009
Orin Lyon	Councilor	Ward 1	2007
Ken Records	Councilor	Ward 2	2009
Keith Woods	Councilor	Ward 3	2009
Debra Kelly	Councilor	At Large	2009
Brad Humbert	Councilor	At Large	2007
Steve Irving	Councilor	At Large	2007

Appointed Officials:

Delphine Palmer	City Manager
Sam Tucker	Municipal Judge
Doug Hojem of Corey, Byler, Rew, Lorenzen & Hojem	City Attorney

CITY of MILTON-FREEWATER

ORGANIZATION CHART

